

EAST PROVIDENCE SCHOOL DEPARTMENT

East Providence, City Hall

145 Taunton Avenue

East Providence, Rhode Island 02914

August 10, 2011

Open Session

The meeting was called to order at 3:00PM by Mayor Rogers. School Committee Members present: Luisa Abatecola, Stephen Furtado, Chrissy Rossi, Charles Tsonos. (Ryan Tellier was not present). Also present: Mr. Edward M. Daft, Interim Superintendent and Mary King, Finance Director. City Council members were present as well as the City Finance Director, Ellen Eggeman.

Mayor Rogers explained that the purpose of the meeting was to have an open discussion of possible suggestions to eliminate the deficit and the submission of a plan to the Rhode Island Auditor General.

At the request of Mayor Rogers, Ms. Eggeman, City Finance Director explained that a meeting was held on July 28th with the Auditor General's Office to discuss the city and school's financial status now and for next year; the city has to respond regarding the 10/31/2010 deficit of \$6.3 million, the additional deficit for FY 11, and the need to address the structural deficit.

The Mayor explained that the City levies taxes; there was a deficit accrued by past School Committees and we need to find ways not to increase that deficit; the City Council can vote on what to do with the

deficit and how not to have a deficit again; the responsibility is on the back of the City Council. Mayor asked if we borrow money, implement Mrs. Rossi's plan, and find other ways to either reduce the budget or raise other revenue, would TANS be a feasible way to go.

Ms. Eggeman explained that if (TANS) Tax Anticipation Notes were borrowed they would have to be paid back from July to December; the city does not have the revenue to pay back due to a cash flow problem; only if cash were in the bank next summer to pay that back; if there is a viable plan to raise \$6 million in nine months, this would be an option; Moody's rating will affect the city's borrowing; if downgraded, the bank may not lend money to the city.

In response to a question from Mayor Rogers if the city can implement, stretch, or add to the plan that would put that amount of cash in the bank; Ms. Eggeman stated that it would not work; options would be a 3 ½ % tax increase; eliminating some city services; decreasing personnel; decreasing services.

Mayor Rogers asked about the percentage of salaries of the school budget. Mary King, Finance Director for the School Department stated that the 93% included salary and benefits of employees, special education expenses, and bus transportation.

Mayor Rogers asked about an extra \$5 million from the state to the schools; Ms. King explained that the funding formula is spread over years; it increases year after year and was to be used to repay the city.

Mayor stated that the deficit will increase over the next few years; he asked for any advice on how to stop the deficit from increasing.

Mary King explained that the deficit is from far back and it was always at \$2 million or so; in 2008-2009 it jumped to the \$5 million range; the School Committee was advised in the middle of the year that the city cut the schools funding about \$4 million and the schools could not recover from that; next year another \$1 million was added and the special education budget was short that year.

Mayor Rogers stated there should be monthly reporting to the City Council and City Manager; he will send a copy of the law; the city needs to know what the deficit is at all times. Mr. Craven, Solicitor, stated that it is required that the City Council be notified as a deficit accumulates.

Mayor Rogers explained that the deficit has been increasing on a daily basis. Ms. King stated it is a cash position versus expenses; loss of education job funds this year does add to the deficit; she does provide this information to the School Committee. The Mayor will put this on the City Council docket; he asked if they decide to go with additional taxes, what situation does it put the city in for 2012. The City Finance Director explained how that would play out.

In response to a question from the Mayor as to why Mrs. Rossi's plan does not have enough cash flow; Ms. Eggeman explained that it is a timing issue on revenues.

Discussion regarding savings on school side; when a position is eliminated.

Discussion regarding a plan presented by Chief Klusnick which proposes \$1.6M in revenue; there are costs associated with implementation of the plan; would require ordinances; \$1.6M when

plan is fully implemented, but there is a timing issue.

Mayor Rogers asked if the Auditor General would allow us to implement TANS or some of the other proposals. Ms. Eggeman advised that the Auditor General requires: a balanced budget for fiscal year 2012, elimination of the current deficit, and viable 2012 budget revenues to equal expenditures. Even if Chief Klusnik's plan is viable and accepted by the AG, the deficit still needs to be handled.

Councilman Conley stated that: if a deficit reduction plan is to be approved by the Auditor General, it must be verifiable and meet legal requirements and the city has up to five years to structure it. In his opinion, the consequences of the prior City Council's actions have caused the bond rating to continue to be downgraded. Based on the July 28th advice from the Auditor General's office, the city's ability to borrow may be threatened and the TANS market may be closed or too expensive. Mr. Conley believes the debt position may be well beyond the numbers presented by the City Finance Director. We may be blocked out of borrowing by the financial houses; we must take in the five year city and schools financial situation it; required by law; the first task is to get accurate five year financial information from the city and schools; this needs proper diligence and analysis i.e. debt service, how to pay off cash and interest, future expenses; mandates from RIDE, DEM, etc. and we need to know what cash is available to pay off debt; When the Deficit Reduction Committee tried to put this information together, it was more difficult than first thought; there was a lack of 2011 computer finances on the city side; we have to put

in a financial record keeping system to allow us to do that; too many questions and holes and assumptions and back to the drawing board; School Department presented a report, which must be revised; money in budget for education jobs funds was not received

Mr. Conley emphasized the need to be able to identify revenues and expenses and to act on verifiable information; past practice that got us here have to be changed; when examining 5 year projections of School Department, there is a deficit this year of \$1.6 million and going forward over five years if no changes are made, it will increase. He believes we have to know what we are faced with for five years before trying anything and drill down to real numbers before it becomes part of a deficit reduction plan; we need to identify savings from the School Department, we need a pay down schedule over five years to address current deficit and address the projected deficit going forward.

Mr. Conley thought the ideas from Mrs. Rossi would be more long term; the projections may be overstated and the funds would not come in this time period to address this deficit. He thought that the deficit elimination committee should continue its work; taking proposals to Auditor General is not a meaningful or timely exercise; we need to verify numbers to determine if revenues will be available next year. These are questions the Auditor General will want answered. Discussion about effects of advertising on kids; if School Committee wants to be the gate keeper, he hopes staff has the expertise to do this; we need to think about this carefully.

Mr. Conley said more analysis is needed: when the Klusnik plan was

presented, he did not endorse it, since the residents do not pay rescue calls now and the service is provided by the city. The City Council does not want to charge and according to charter cannot charge; renting or selling vacant buildings at this time is difficult.

Mr. Conley: Option of meals tax of \$500,000 per year is good practice; can we get more meals tax to the school side and increase education funding formula;

Mary King advised that it grows about \$1 million dollars each year; being used to reduce deficit; City Council can assign to deficit reduction which will be favorable to Auditor General.

He mentioned before that we need to spend and invest in a better financial system to benefit the city and schools in order to have timely financial information. The deficit elimination took so long just to crunch numbers; we need to have accuracy need a performance audit on the school side.

Mr. Conley talked about how the city got to this point and he plans to recommend ordinances to address issues such as monthly reporting; during the term of deficit reduction, the city needs monthly reporting (budget to actual) from the School Department to the city; failure to do this has made it increasingly difficult over the years to follow deficit reduction. Although there is a state law for reporting (not longer than 30th day every month), reporting has not been done and the city needs an ordinance to require monthly revenue and expense estimates in all categories in the budget with explanations of any deviation to fix it in real time rather than five years later. We need a corrective action plan and then need a local ordinance to require

transparency.

Mr. Conley explained that transparency is also needed on the city side and controls need to be put in place; an ordinance requires a City Council vote to exceed the tax cap, but last year the city asked for and received a waiver, which was never heard about at a City Council meeting.

Mr. Conley stated that the City should not go to the Auditor General with information that is not verifiable; this should be a combined effort of the School Department and the City and a performance audit should be done.

Mayor Rogers stated that Ms. Eggeman did 5 year projections, which does not include meals tax and funding formula is on the school side. Mayor asked for proposals from the City Finance Director; this is a work in progress; looking at every service of the city. Some options would require negotiations with unions but would require work; the city can only recommend to schools.

Mayor Rogers - Auditor General needs hard numbers; it would be helpful for the City Council to come back with items they would consider reducing

Mayor –asked about money from Chartwells for school trash; Mary King was not aware of any, but will check on it. Ms. Eggeman needs direction from City Council and Schools to get numbers to AG.

Mr. Tsonos commented that we the last deficit plan submitted was not in accordance with state law; we have thirty days to do this; we should not lose sight of the fact that we have to maintain a quality of life for our citizens and we owe an education to children; discussions

of consolidation with City Council and we need to move forward with those on the school side; we have reduced legal expenses, have eliminated positions and reorganized; the School Committee has done things to save money and will continue to work through a plan. He asked Superintendent and Finance Director to review bulleted items

Mary King stated that TANS would provide a quick cash flow to vendors owed \$6.3 million; new cash used to pay old bills in November; we need to do something about vendors; we need to review funding from the city to the School Department; 53% of tax levy to schools; 61% is state average; 8-10% average not funded properly. On health insurance coverages; similar policy between schools and city; could offer reduced work schedule and reduced pay; windmill on school property or lease place for one; health care audit; all possibilities.

Mayor Rogers asked everyone to get information to Ms. Eggeman over the next two weeks with proposed line items cuts and that it does not help to place blame; everyone has to find immediate ways to pay down the \$6.3 million and provide a business plan as a unit from the City Council and School Committee.

Mrs. Rossi asked how many financial houses the city asked for financing, what was the credit rating when we bonded for construction and what is it now.

Mr. Conley reported it as minus with negative outlook; Mrs. Rossi - borrowing for construction will be difficult.

Mr. Conley spoke about advertising since marketers see children as

easy targets when combined with educational environment; he prefers not to make a place in schools for it; most important function in government is the education of kids. He admitted this is a difficult situation and he does not want to make assumptions; he would appreciate information from audit experts to assist in the process; the School Committee Chair talked about this at the beginning of the year.

Mr. Furtado stated that Bacon and Edge did a performance audit at the time we had a \$1.2 million deficit, which indicated that the schools were underfunded.

Mr. Conley said we need to address that if a performance audit tells us we are under-funded; he suggests a monthly budget, actual quarterly report with a corrective action plan; how proposed to correct with no chance of raising revenues.

Mr. Conley stated that timely information is needed with explanations when deviation occurs and how to correct it; we need real time information on facts as they are happening.

Mayor asked to provide copies to the Clerk and to Mr. Tellier and that Ed Daft and Mary King also be available to provide information to Ms. Eggeman.

The meeting adjourned at 4:50PM.

Respectfully submitted,

Patricia A. Iannelli, Administrative Assistant

Stephen Furtado, Clerk of the Committee